

D & T Studying DDC Distribution Centers

In response to legislative and Department of Defense (DOD) mandates for financial management operations, DLA hired the audit firm of Deloitte and Touché (D&T) to perform audits of DLA financial statements. Everyone's full cooperation with the audit effort is essential, DLA Director, then LTG Henry T. Glisson, said when announcing the audit.

In August 2000 DLA HQ awarded D&T a three-year contract, at a cost of more than \$5 million, to assess the FY 00 Supply Management Balance Sheet Statement and render an opinion on the FY 01 and FY 02 Consolidated Balance Sheet Statements (which includes DDC and all other Primary Level Field Activities.) The FY 02 audit may include other financial statements as determined by the DLA Audit Committee.

The Balance Sheet Statement is the financial statement that shows what DLA owns (assets) and what DLA owes (liabilities), and DLA's Net Position (the difference between assets and liabilities). The balance sheet is one of five financial statements that will need to be audited in order for DLA to achieve CFO compliance.

CFO Compliance is a major goal of DOD and the DLA. There are three primary audit goals. The first goal is to demonstrate financial stewardship over the assets entrusted to DLA and DDC. Further, DLA and DDC want to maintain the integrity of our financial records through the end-to-end business processes and in our financial reports and performance measures.

The second goal is to establish a long-term partnership with D&T and rely on them to help DLA and DDC discover the strengths and weaknesses in our existing business practices.

The final goal is to develop corporate-wide solutions to address the issues and concerns raised by the audit. From this point forward, there will be a holistic approach to address system deficiencies, poor business practices, or weak controls. DLA and DDC will strive for the best corporate-wide solution to address the problems identified. DDC and other Primary Level Field Activities (PLFA) will no longer develop unique (stovepipe) solutions where standard business rules can be implemented.

An important point to remember about this audit, and when dealing with the D&T personnel, this a "victimless audit," VADM Raymond A Archer, III, DLA Vice Director, said. The audits of DDC and the Distribution Centers are not intended to assign blame but to work collectively to find the best corporate-wide solutions.

At DDC HQ, a Cross Functional (CF) Team led by Mr. Robert Rhinier of the Internal Review office is working with HQ DLA and D&T audit personnel. The CF Team is responsible for facilitating and coordinating audit requirements, results, issues, and resolution at DDC.



Jessica Dunne, Jane Folger, and Russ Herold, D&T auditors, working at DDC.

The initial contract with D&T is for three years starting with an assessment of the DLA FY 2000 Supply Management Balance Sheet Statements and finishing with a complete audit of all DLA FY 2002 financial statements. Most Distribution Centers and other DLA activities will be reviewed by the end of the three-year contract.

Since the beginning of FY 01, D&T audit personnel have visited DDC Headquarters and the Distribution Centers located in New Cumberland, PA; San Joaquin, CA; Richmond, VA; Columbus, OH; Hill, UT; Oklahoma City, OK; Albany and Warner Robins, GA; and Corpus Christi, TX. Each visit lasted three to five days.



D&T auditors and Defense Finance and Accounting Staff (DFAS) discuss the DDC audit. (Clockwise from the left: Russ Herold, D&T; Roger Neeffe, DFAS; Steve Garfield, D&T; Jessica Dunne, D&T)

The auditors are "assessing DDC Distribution Center's accounting procedures and internal controls related to financial reporting used to process balance sheet transactions and report the account balances in the DDC Balance Sheet statement," Rhinier said.

At the Distribution Centers, D&T personnel work with both the operating personnel and managers when doing their inventory observation work. This may include all aspects of the Distribution Center's work (receiving, storage, and shipping, etc.).

When D&T goes to a Distribution Center, Rhinier said, "they interview personnel, take tours, make observations of distribution operations, take sample inventory counts, and perform inventory record accuracy tests. They also identify and document how the various receiving, stowing, re-warehousing, inventory, and issuing procedures work. D&T then matches the actual practices against the established procedures (i.e. what we are supposed to be doing) and draw their conclusions."

D&T has completed their review of DLA's FY00 Supply Management Balance Sheet and provided some preliminary results and did find deficiencies in DLA's financial management.

D&T said that the deficiencies represent a lack of accountability and efficiency of the business processes. DLA has a solid history of supporting the Armed Services' logistics needs. D&T said that DLA's recent focus on fiduciary responsibility represents a culture change throughout the DoD. Instilling this appreciation for fiduciary responsibility is an evolutionary process. D&T said that while DLA management may be able to order changes in tactical accounting procedures, the basic changes required as a foundation for a solid financial internal control environment must take place in the culture of the organization. Which, according to D&T, can only be achieved through commitment and direction from management. D&T noted, that they received full cooperation from DLA personnel and obtained all data requested that was available.